



Hua Kok International Ltd

ANNOUNCEMENT

Background

On 9 June 2004, the Company announced a number of measures including:

- Preliminary discussions with third parties to pursue reverse takeover opportunities under which the Company is to acquire viable or profitable businesses.
- The proposed scheme of arrangement (the “**Subsidiary’s Scheme**”) for its principal construction subsidiary, Hua Kok Realty (Private) Limited (the “**Subsidiary**”).
- Seeking a general mandate to authorize the Company to sell its 60% stake in the World Spa Group of Companies.

On 9 August 2004, it was announced with regret that the Subsidiary’s Scheme by the Subsidiary (after obtaining relevant advice) was not feasible to be proceeded with for reasons which were set out in that announcement.

With a view to reviving and restructuring the Group’s weak financial position, the directors have been actively pursuing discussions with third parties to become strategic shareholders and business partners. In connection with this, the Directors are pleased to announce the following:-

Execution of the Strategic Subscription and New Business Agreement

The directors are pleased to announce that the Company has, on 30 August 2004, entered into a Strategic Subscription and New Business Agreement with Prosperity Steel (Asia) Co. Ltd (“**Prosperity**”). The principal terms and purpose of the Strategic Subscription and New Business Agreement are:

- Prosperity to subscribe S\$6 million for new shares (“**Strategic Shares**”) so as to own 70% of the enlarged share capital of the Company (after the Restructuring and the Strategic Shares) upon the fulfillment of certain agreed conditions precedent, amongst which would be the restructuring (the “**Restructuring**”) (as agreed and as expanded below).
- Prosperity will as soon as practicable (and no later than 30 September 2004) commence a new business (the “**Minerals Business**”) through a special vehicle incorporated in the Macao Special Administrative Region of The Peoples’ Republic of China wholly- owned by Prosperity (the “**Minerals Business Company**”).

- In the event that the issue of the Strategic Shares is completed, the Company shall have the option to buy Prosperity's 100% stake in the Minerals Business Company, including all rights and interests in and to such shares with effect from the date of incorporation of the Minerals Business Company, at S\$1.00 through a conditional call option agreement ("**Call Option**"). In the event that the Strategic Shares are not issued to Prosperity, the Call Option shall be terminated. In the event that the Strategic Shares are issued to Prosperity, the Call Option shall be deemed exercised.
- In addition, when the Minerals Business Company becomes a wholly-owned subsidiary of the Company, Prosperity shall guarantee that the profits before tax of the Mineral Business for the period between 1 January 2005 and 31 December 2005 shall be no less than S\$10 million.
- When the Minerals Business Company becomes a wholly-owned subsidiary of the Company, and the Minerals Business Company achieves profit before tax equals or exceeds S\$20 million ("**Value Event A**") or S\$30 million ("**Value Event B**") for the period between 1 January 2005 and 31 December 2005, the Company shall issue Prosperity such number of bonus shares in the capital of the Company credited as fully paid up as if Prosperity's interest in the Company as at completion of the Strategic Shares Issue comprises 85% and 88% respectively of the share capital of the Company after the Restructuring and the issue of the Strategic Shares (the bonus shares issue pursuant to Value Event A or Value Event B shall be referred to as the "**Further Consideration Shares**").
- Prosperity will as soon as practicable (and no later than 30 September 2004) extend a loan of S\$6 million to the Group of which S\$0.3 million as a form of deposit to the Company (the "**Deposit**") and the balance S\$5.7 million as a loan (the "**Prosperity Loan**") to the Minerals Business Company.
- on or before 15 September 2004, Prosperity or its holding company is to enter into a conditional loan agreement with Tan Holdings Pte Ltd ("**THPL**") to provide THPL with a loan of S\$800,000 to be disbursed on a timing to be agreed with THPL, Bumiputra Commerce Bank ("**BCB**") and Prosperity for the purposes of THPL entering into a deed of assignment with BCB, under which BCB shall assign BCB's loans of S\$800,000 extended to the Company to THPL, on the condition that BCB shall agree to act as Prosperity's security agent in relation to a charge over 60,000,000 shares in the Company belonging to THPL given in support of the S\$800,000 BCB loan.

Upon Prosperity completing the subscription of the Strategic Shares, Prosperity shall:

- (a) be deemed to have been repaid the Prosperity Loan and that the repayment proceeds shall be deemed deployed as subscription monies towards the Strategic Share Issue;
- (b) be deemed to have deployed as subscription monies the sum of S\$0.3 million of the Deposit towards the subscription of the Strategic Shares; and

- (c) transfer to the Company its 100% stake in the Minerals Business Company for the nominal consideration of only S\$1.00.

Accordingly upon completion, Prosperity would become a controlling shareholder of the Company and the Minerals Business shall become its core business activity.

The Proposed Minerals Business

Prosperity is in the business of iron ore trading and metallurgy coke processing and supply business and has agreed that as soon as the Minerals Business Company is established with a paid up capital of Pataca 100,000 (which is equivalent to approximately S\$22,000), Prosperity shall assist at its own costs to commence in the Minerals Business Company the Minerals Business comprising:-

- (i) the sourcing of coking coal from Australia and Ukraine and supplying to a customer in Eastern Europe for processing into metallurgy coke and supplying the same to customers in India and Europe;
- (ii) the sourcing of spot or short term contracts relating to the purchase of iron ore from primarily India and subsequently from other parts of Asia (the **"Included Territories"**) and supplying such iron ore to the Chinese market;
- (iii) businesses related to (i) and (ii) above; and
- (iv) in connection with (i) (ii) and (iii), the necessary management and expertise to be transferred from Prosperity and to be employed by the Minerals Business Company.

The extended Prosperity Group is also in the business of sourcing iron ore on a long term contracts basis from Brazil, South Africa and Australia (the **"Excluded Territories"**). Information on the extended Prosperity Group is set out in a later section of this announcement. After completion of the Strategic Share Issue, when the Minerals Business Company becomes wholly owned by the Company, Prosperity shall undertake that the Minerals Business shall be exclusively carried out by the Minerals Business Company and Prosperity shall not, without the consent of the Audit Committee and/or Independent Directors, carry on any business similar to the Minerals Business in competition with the Minerals Business Company, but Prosperity shall not be precluded from commencing any other business through the Minerals Business Company, including the purchase of iron ore from the Excluded Territories. The Directors and Prosperity are of the opinion that the purchase of iron ore from the Included Territories would not conflict with the extended Prosperity group's purchase of iron ore from the Excluded Territories.

The Restructuring as agreed with Prosperity

Restructuring of the Company will be materially as follows:-

- (1) Prosperity will, subject to the terms and conditions of the Strategic Subscription and New Business Agreement:
 - (i) invest S\$6,000,000 (the **"Subscription Price"**) in the Company by subscribing for the Strategic Shares (the **"Strategic Share Issue"**) which shall comprise 70% of the share capital of the Company as enlarged by the Unsecured Conversion Shares (as defined hereunder) and the Secured Conversion Shares (as defined hereunder) under the

Restructuring and the Strategic Share Issue (but excluding the Contingent Conversion Shares (as defined hereunder) and the Further Strategic Shares (as defined hereunder));

- (ii) as soon as practicable and in any event no later than 30 September 2004 and prior to Completion (as defined hereunder), provide the Minerals Business Company (defined below) with a shareholder's loan amounting to S\$5,700,000 (the "**Prosperity Loan**") on the terms set out in the form of the shareholders' loan agreement (the "**Prosperity Loan Agreement**");
 - (iii) incorporate the Minerals Business Company and carry out the Minerals Business through the Minerals Business Company on or before 30 September 2004;
 - (iv) concurrently with (ii), enter into a call option agreement ("**Conditional Call Option Agreement**") under which the Company would have the call option to buy over 100% of the shares of the Minerals Business Company, including all rights and interests in and to such shares with effect from the date of incorporation of the Minerals Business Company, from Prosperity at a nominal purchase price of S\$1.00 upon the completion of the Strategic Share Issue ; and
 - (v) on or before 15 September 2004, enter or procure its holding company to enter into a conditional loan agreement with THPL to provide THPL with a loan of S\$800,000 as described above.
- (2) the Company will enter into binding compromises, particularly through court sanctioned scheme of arrangements whereby:
- (i) THPL, as the current controlling shareholder of the Company, agreeing to convert:-
 - (A) their loan of approximately S\$0.812 million; and
 - (B) the S\$0.8 million payable by the Company to them arising from the assignment of the Company's owings of S\$0.8 million to BCB,into new shares of the Company;
 - (ii) the performance bonds issuers of Hua Kok Realty Pte Ltd (a subsidiary of the Company) ("**HKR**") and the liquidators or receivers of HKR, Hua Gan Pte Ltd (a subsidiary of the Company) ("**HG**") and other subsidiaries of the Company agreeing to convert:
 - (A) in respect of the performance bonds issuers the amount of approximately S\$4.35 million for which the Company would be liable;
 - (B) in respect of the liquidators or receivers of HKR, HG and other subsidiaries, the amount of approximately S\$10.09 million owed by the Company to the subsidiaries (or such lesser sum after netting off any sum owing by the subsidiaries to the Company arising from (A) above)⁽¹⁾; and

- (C) in respect of creditor banks of Hua Kok Precast Pte Ltd the amount of approximately S\$0.9 million for which the Company would be liable as guarantor,

into new shares of the Company;

(note (1): the satisfaction of the S\$10.09 million referred to in paragraph (ii)(B) above with new shares of the Company (the "**Satisfaction**") may be prohibited by the Companies Act if at the time of satisfaction, HKR, HG and the subsidiaries continue to be subsidiaries and are not in liquidation. Accordingly, it must be cautioned that the Satisfaction with the new shares of the Company is the substantive intent and that the mode and manner of the Satisfaction may vary to comply with all applicable laws and directions of authorities with competent jurisdiction, including, if necessary, the disposal of the two subsidiaries.)

- (iii) all other unsecured creditors of the Company (other than (aa) preferred creditors arising from the claims set out in Section 328(1)(b) to (g) of the Companies Act, and (bb) creditors deemed essential suppliers such as utilities and telecommunications suppliers, but not including professional services providers in respect of any work or services performed prior to the preparation of, and the transactions contemplated in this Agreement), to whom approximately S\$0.32 million are owed as at the date hereof agreeing to convert such amounts into new shares of the Company.

The new shares of the Company to be issued under sub-paragraph (i), (ii) and (iii) above shall be referred to as the "**Unsecured Conversion Shares**" and each such Unsecured Conversion Share shall be issued at the Deemed Unsecured Conversion Share Issue Price (as defined hereunder).

- (3) The Company owes approximately S\$1.6 million to the minority shareholders of the World Spa Malaysian Sdn Bhd (a subsidiary of the Company) which is secured by the Company's 60% shareholding in World Spa Industries Pte Ltd. The Restructuring shall also include the minority shareholders agreeing to convert the amount owing of S\$1.6 million into new shares of the Company and discharging their security interests. Such new shares of the Company to be issued shall be referred to as the "**Secured Conversion Shares**" and each such Secured Conversion Share shall be issued at the Deemed Secured Conversion Share Issue Price (as defined hereunder).
- (4) The Deemed Secured Conversion Share Issue Price shall be 20% less (or such other discount as the directors or the scheme administrator in consultation with Prosperity may in their discretion determine) than the Deemed Unsecured Conversion Share Issue Price. The Deemed Secured Conversion Share Issue Price and the Deemed Unsecured Conversion Share Issue Price shall be determined such that the number of Unsecured Conversion Shares and the Secured Conversion Shares issued will in aggregate comprise 15% of the share capital of the Company as enlarged by the Strategic Share Issue, the Unsecured Conversion Shares and the Secured Conversion Shares.
- (5) The Company has contingent liabilities under:-
- (a) a corporate guarantee of up to approximately S\$8.5 million issued to the Lending Banks (as defined hereunder) in support of the existing bank borrowings of the World Spa Group of companies;

- (b) possible costs and disbursements pursuant to the liquidation of Hua Kok Precast Pte Ltd;
- (c) a corporate guarantee given to ECICS Credit and Guarantee Company (Singapore) Ltd issued in support of the bank borrowings arising from a joint venture project undertaken by HKR; and
- (d) a corporate guarantee given to Malayan Banking Berhad in support of secured bank borrowings of HKR (which as at the date hereof is regarded as unlikely to crystallize as the security provided to Malayan Banking Berhad is more than the outstanding bank borrowings,

(collectively, the “**Contingent Liabilities**”, and collectively, the contingent creditors above shall be referred to as the “**Contingent Creditors**”). The Restructuring shall include the Contingent Creditors agreeing that in the event the Contingent Liabilities crystallize and become actual liabilities to the Contingent Creditors (the “**Crystallized Liabilities**”), the relevant Contingent Creditors in recourse against the Company under the corporate guarantees or indemnities shall be bound to receive new shares of the Company at the same price as the Deemed Unsecured Conversion Share Issue Price in discharge of the Crystallized Liabilities. Such new shares shall also be referred to as the “**Contingent Conversion Shares**”.

In connection therewith, the Company shall use its best efforts to arrange for the Lending Banks (ie collectively, United Overseas Bank Limited, Public Bank Berhad, ANZ, and Malayan Banking Berhad) to agree to maintain their banking facilities with the World Spa Group for the next three years (the “**Agreed Period**”), and during the Agreed Period, the Company shall in cooperation with the minority shareholders of the World Spa Group, use its best endeavor to divest its 60% stake and for the purchaser to assume responsibility under the aforesaid corporate guarantee.

The Company shall further use its reasonable endeavours to incorporate a provision that if the then prevailing market price of the Company’s shares as traded on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) is higher than the Deemed Unsecured Conversion Share Issue Price, that the Contingent Conversion Shares may be issued at that higher market price.

- (6) In the event that the contingent creditors referred to in (5) are bound in the Agreed Period to receive Contingent Conversion shares in discharge of the Crystallized Liabilities, Prosperity shall have the right to request the Company, and the Company shall agree, to issue bonus shares in the capital of the Company to Prosperity, such shares to be fully paid-up upon issue (“**Further Strategic Shares**”), at the ratio of:-
 - (a) seven (7) Further Strategic Shares for every three (3) Contingent Conversion Shares when neither of Value Event A or Value Event B is applicable;
 - (b) seventeen (17) Further Strategic Shares for every three (3) Contingent Conversion Shares when Value Event A is applicable; or
 - (c) twenty two (22) Further Strategic Shares for every three (3) Contingent Conversion Shares when Value Event B is applicable.

- (7) To facilitate the issue of the Strategic Shares in the Company at a price below the current par value of S\$0.05, the Company is proposing a capital reduction exercise to reduce the par value of each ordinary share from S\$0.05 to S\$0.001, subject inter alia, to the approval of the shareholders of the Company, the SGX-ST and the Court (the “**Capital Reduction Exercise**”).

The Conditions Precedent to the Strategic Subscription and New Business Agreement

The conditions precedent to be fulfilled by 15 December 2004 are, inter alia, the following:

- (a) an Offer Information Statement (if necessary) being lodged with and accepted by the Monetary Authority of Singapore and the SGX-ST;
- (b) the approval of the Company’s shareholders in general meeting and the in-principle of the SGX-ST being obtained for:-
 - (i) the issue and allotment of the Strategic Shares, the Further Strategic Shares, the Further Consideration Shares, the Unsecured Conversion Shares, the Secured Conversion Shares and the Contingent Conversion Shares;
 - (ii) the listing and quotation of the Strategic Shares, the Further Strategic Shares, the Further Consideration Shares (as defined in Clause 8A), the Unsecured Conversion Shares, the Secured Conversion Shares and the Contingent Conversion Shares upon their issue and allotment;
 - (iii) if required, the Company to venture into the Minerals Business through the Minerals Business Company and upon Completion as a wholly owned subsidiary,
 - (iv) the amendment of the Company’s Articles providing that Prosperity shall be issued with Further Strategic Shares (as defined hereunder) by way of a bonus issue;
 - (v) the amendment of the Company’s Articles providing that Prosperity shall be issued with Further Consideration Shares by way of a bonus issue,

and where such approval (if necessary) is subject to any conditions (other than moratorium provided however that the period of such moratorium does not exceed the recommended period for listings under the SGX guidelines) that such conditions are acceptable to the Company and to Prosperity;

- (c) the approval of the Company’s creditors (whether under bi-lateral or multi-lateral agreements or court sanctioned scheme of arrangements) and the confirmation of the court (if any) for the scheme of arrangement being obtained for:
 - (i) the Restructuring as set out above; and
 - (iii) the allotment and issue of all the Unsecured Conversion Shares, the Secured Conversion Shares and the Contingent Shares for the purposes of satisfying the Company’s liabilities to creditors.

- (d) Prosperity being satisfied upon the completion of a due diligence review by Prosperity on the Company, such review to be completed within 14 days of the date hereof;
- (e) the completion of the Capital Reduction Exercise;
- (f) (i) a ruling by the Securities Industry Council on terms and conditions satisfactory to Prosperity that Prosperity would not be required to make a general offer for the shares of the Company; and (ii) evidence satisfactory to Prosperity of the Company having obtained a whitewash waiver from the Company's independent shareholders from the general offer obligations under Rule 14 of the Singapore Code on Take-Overs and Mergers (the "**Code**") and fulfillment of other relevant terms and conditions (if any) of the said ruling of the Securities Industry Council; and
- (g) Prosperity and the Minerals Business Company entering into and executing the Prosperity Loan Agreement upon the incorporation of the Minerals Business Company, and in any event, no later than 30 September 2004;
- (h) the Parties entering into and executing the Conditional Call Option Agreement on the date hereof; and
- (i) the Company being satisfied upon the completion of a due diligence review by the Company on Prosperity, such review to be completed within 14 days of the date hereof.

Caution to Shareholders

The directors wish to assure shareholders that the Company would use its best efforts to fulfill the conditions precedent and for the transactions contemplated under the Strategic Subscription and New Business Agreement to proceed to completion. However, shareholders must be cautioned that there is no certainty that the creditor banks and other creditors of the Group would approve the Restructuring as agreed to by Prosperity. Accordingly, shareholders should exercise caution in the trading of shares of the Company on the SGX-ST.

The Company is not immediately able, in this announcement, to provide a summary of the illustrative financial impacts of the transactions contemplated under the Strategic Subscription and New Business Agreement. The Company shall use its best efforts to set out in a separate announcement the indicative range of prices at which the Unsecured Conversion Shares and the Secured Conversion Shares are likely to be issued at, and a summary of illustrative financial impacts based on certain assumptions about the Restructuring; the extent of the Contingent Liabilities; the impact as if completion was at 30 June 2004; and other assumptions.

Information on the Extended Prosperity group

The extended Prosperity group is one of the leading Asian businesses engaged in supply chain management and structured finance of industrial raw materials and finished goods such as iron ores, steel slabs, steel billets and other steel products, cement, clinker, oil and gas, metallurgical coke, coking coal, cobalt and copper.

Chairman Mr David Wong Ben Koon has more than a decade of experience and has grown the Prosperity group into one of the leading strategic and preferred partner of the steel and cement industries in China.

In addition to the Prosperity group's activities with the major players in the Chinese steel and cement industries, the Prosperity group's businesses include:

1. 50% stake in a 1.0 million metric tonnes annual production capacity steel mill and currently undergoing expansion to 3.0 million metric tonnes in Liyang, Jiangsu Province, China
2. 25% stake and single largest shareholder in a 5.0 million metric tonnes annual production capacity cement plant in Guangdong Province, China
3. 51% stake in a cobalt and copper mining and processing company in Congo (DRC) and Zambia
4. wholly owned 120,000 m³ annual production capacity plywood factory in Guangdong Province, China
5. 60% floor area of a 28 storey commercial building known as Silver Bay Plaza in Guangzhou, China.

Headquartered in Hong Kong, the extended Prosperity group has offices in China, India, Congo, Zambia and South Africa. The extended Prosperity group's geographical reach includes Australia, Brazil, Peru, South Africa, India, China, Taiwan, Congo(DRC), Zambia, Bosnia, Vietnam, Bangladesh, UAE, Russia, Ukraine, Hong Kong, UK and USA.

By Order of the Board

Paul Lin
Chief Executive Officer
31 August 2004